

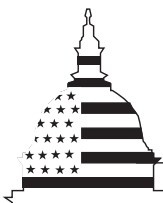
GAO

Report to the Chairman and Ranking
Minority Member, Committee on
Governmental Affairs, U.S. Senate

July 2002

CONTRACT MANAGEMENT

Interagency Contract Program Fees Need More Oversight



G A O

Accountability * Integrity * Reliability

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Abbreviations

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| COMMITTS | Commerce Information Technology Solutions |
| FEDCAC | Federal Computer Acquisition Center |
| FEDSIM | Federal Systems and Integration Management Center |
| FTE | Full-time equivalent |
| FSS | Federal Supply Service |
| FTS | Federal Technology Service |
| GAO | General Accounting Office |
| GSA | General Services Administration |
| GWAC | Governmentwide acquisition contract |
| ITOP | Information Technology Omnibus Procurement |
| NASA | National Aeronautics and Space Administration |
| NIH | National Institutes of Health |
| NITAAC | National Information Technology Acquisition and Assessment Center |
| OMB | Office of Management and Budget |
| SDC | Solutions Development Center |
| SEWP | Scientific and Engineering Workstation Procurement |
| TASC | Transportation Administrative Service Center |



United States General Accounting Office
Washington, DC 20548

July 25, 2002

The Honorable Joseph I. Lieberman
Chairman
The Honorable Fred Thompson
Ranking Minority Member
Committee on Governmental Affairs
United States Senate

Federal agencies are increasingly using contracts and acquisition services offered by other agencies and paying a fee for these services. These interagency contract service programs are being used in a wide variety of situations, from those in which a single agency provides limited contracting assistance to a “soup to nuts” approach in which the provider agency’s contracting officer handles all aspects of the procurement. This increased use of interagency contracts has come about as a result of reforms and legislation passed in the 1990s, which allowed agencies to streamline the acquisition process, operate more like businesses, and offer increasing types of services to other agencies.

Reliable information on the fees charged and revenues generated by interagency contract services can be helpful to the Congress and to federal executives when they make decisions about allocating federal resources, authorizing and modifying programs, and evaluating program performance. However, information on costs and program results has been incomplete.

To provide you with information on the fees charged by interagency contract programs, we determined whether (1) the programs reported total annual revenues in excess of costs (earnings or (losses)) in accordance with the Office of Management and Budget’s (OMB) guidance¹ on accounting for actual costs and (2) agencies with governmentwide acquisition contracts (GWAC) operate their programs consistent with OMB guidance to transfer earnings to the Treasury. In addition, we determined whether and to what extent fees charged by the General

¹OMB’s executive agent designation letters for governmentwide acquisition contracts direct that agencies use an accountability structure and financial systems that ensure the identification, accounting, and recovery of the fully allocated actual costs in accordance with the *Statement of Federal Financial Accounting Standards Number 4: Managerial Cost Accounting Concepts and Standards for the Federal Government*.

Services Administration's (GSA) Federal Supply Schedules program have generated revenues in excess of costs. Our review included

- the five agencies designated by OMB to operate information technology GWACs²
- the Department of the Interior's franchise fund pilot program³ and
- the GSA Schedules program.⁴

In fiscal year 2001, purchases under these seven interagency contract programs totaled \$18.8 billion.

Specific information on our scope and methodology is in appendix I.

Results in Brief

Most of the contract service programs we reviewed reported an excess of revenues over costs in at least one year between fiscal years 1999 and 2001. The exceptions were the GWACs at Commerce and Transportation, which reported losses each year during this period. The Schedules program has produced exceptionally high earnings, with revenues exceeding costs by more than 53 percent—for a total of \$151 million—during the 3-year period.

OMB guidance directs agencies with GWACs or franchise fund programs to account for and recover fully allocated actual costs and to report on their financial results. Agencies are supposed to identify all direct and indirect costs and to charge fees to ordering agencies based on these

²GWACs are governmentwide contracts established to improve the acquisition of information technology. GWACs are operated at the Departments of Commerce and Transportation, the National Aeronautics and Space Administration (NASA), GSA's Federal Technology Service (FTS), and the National Institutes of Health (NIH). On May 20, 2002, the Secretary of Transportation informed OMB that Transportation would not be seeking redesignation of its GWAC at that time. Additional information is in appendix XI.

³Six franchise fund pilot programs were authorized in the Government Management Reform Act (P.L. 103-356) to provide common administrative support services. In addition to the Department of the Interior, pilot programs were authorized at the Departments of Commerce, Health & Human Services, Treasury, and Veterans Affairs and the Environmental Protection Agency.

⁴The Schedules program offers a large group of commercial products and services ranging from office supplies to information technology services.

costs. However, some GWAC programs have not identified or accurately reported the full cost of providing interagency contract services. Thus, there is no assurance that their fees accurately reflect their costs. Because OMB has not required agencies to submit annual financial reports summarizing program results that include a description of the agencies' indirect cost allocation methodologies, it was unaware that not all agencies are following its guidance.

OMB's guidance further directs that agencies transfer GWAC earnings to the miscellaneous receipts account of the U.S. Treasury's General Fund. However, the way agencies operate their revolving funds conflicts with OMB's guidance. Agencies that operate their GWACs under revolving funds have used GWAC earnings to support other programs within the revolving fund or to maintain fund operations. They have not transferred any GWAC earnings to the Treasury. These revolving funds were established by statutes that allow retention of earnings.⁵ Agency officials believe their revolving funds' statutory provisions prevail over OMB's guidance to GWAC agencies. OMB officials view this as an important issue that needs review.

The Schedules program has generated hefty earnings, largely because of the rapid growth of information technology sales. Rather than adjust the fee, however, GSA has used the earnings primarily to support GSA's stock program and fleet program.⁶ Both of these uses are permitted by the revolving fund in which the Schedules program resides. However, the significant amount of earnings means that Schedules program customers are, in effect, being consistently overcharged for the contract services they are buying. GSA officials stated that adjusting the fee would be burdensome for the Schedules contractors, in part because the fee is embedded in the unit costs, rather than charged as an add-on where it could be adjusted more easily. However, GSA is now considering options

⁵Three of the five GWAC programs (at Transportation, NIH, and FTS) operate under revolving funds, while the NASA and Commerce GWACs do not. The GAO General Counsel's office sent letters to NASA and Commerce in April 2002 requesting information on how they operate their GWACs consistent with applicable fiscal laws, including the miscellaneous receipts statute (31 U.S.C. 3302(b)). NASA responded by letter dated May 8 and Commerce by letter dated May 17. We continue to explore these issues and we recently requested OMB's views.

⁶GSA's stock program serves as a storehouse and distribution center for items such as office supplies, tools, and safety products. GSA's fleet program provides vehicles for lease by federal agencies.

for adjusting the fee and plans to discuss the issue with OMB in the development of the President's fiscal year 2004 budget request.

We are making recommendations to OMB concerning (1) the need for more oversight of GWAC executive agents' indirect cost accounting and their reporting of annual operating results, fees, and the use of earnings and (2) the need to work with GWAC executive agents to address the handling of GWAC earnings. We are also making a recommendation to GSA to adjust the Schedules program fee to reflect costs more closely.

Background

The government acquisition landscape was reformed by several legislative changes in the 1990s, such as the Clinger-Cohen Act of 1996⁷ and the Government Management Reform Act of 1994.⁸ The Clinger-Cohen Act authorized creation of GWACs, which are typically multiple-award contracts for information technology that allow an indefinite quantity of goods or services (within specified limits) to be furnished during a fixed period, with deliveries scheduled through orders with the contractor. The providing agency awards the contract, and other agencies order from it.

OMB was authorized by the Clinger-Cohen Act to designate agency heads as executive agents for GWACs. Some agencies had already established information technology contracts prior to the OMB designation. However, according to agency officials, the OMB designation is beneficial to them because it enables them to provide a streamlined contracting process, it creates opportunities to leverage the buying power of customer agencies, and it helps them market their contracting services. Table 1 shows the year in which agencies received OMB's designation.

⁷P.L. 104-106, Feb. 10, 1996.

⁸P.L. 103-356, Sec. 403, Oct. 13, 1994.

Table 1: First Year of OMB Executive Agent Designation

| Agencies | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|------|------|------|----------------|----------------|
| GSA's Federal Technology Service ^a | X | | | | ^b |
| Commerce | | | | X ^b | |
| Transportation ^a | | | | X ^b | |
| NASA ^a | | | | | X ^b |
| NIH | | | | | X ^b |

^aThese agencies had received procurement authority from GSA for information technology contracts prior to OMB's executive agent designation.

^bIndicates when agencies were required to follow OMB guidance on fully allocated actual costs.

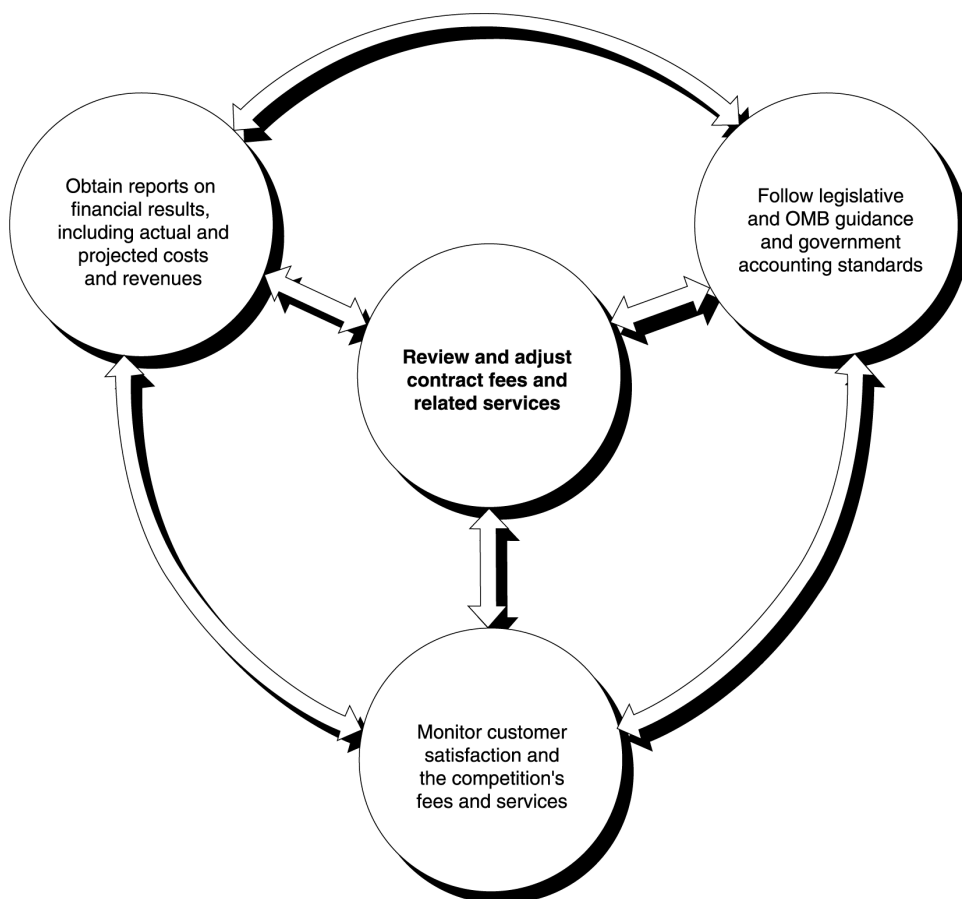
The Government Management Reform Act of 1994 authorized the Director of OMB, in consultation with congressional committees, to designate six franchise fund pilots that would operate as fully self-supporting business-like entities within the federal government to compete for the delivery of common administrative support services to federal customers. Franchise fund programs provide administrative services such as contracting, systems operation, and payroll processing, in addition to information technology. Interior's program, GovWorks, provides contracting services for a wide range of goods and services.

The Schedules program,⁹ part of GSA's Federal Supply Service, provides federal agencies with a streamlined process to obtain commonly used products and services at prices associated with volume buying. Information technology is the biggest business line in the Schedules program. Interagency purchases of information technology from the Schedules program exceed those made from all GWAC programs combined.

GWACs, franchise fund pilot programs, and the Schedules program charge fees for services with the intent to recover costs. Fees are based on known costs, estimates of future costs and revenues, and consideration of the prices charged by the competition for similar services. Figure 1 is an illustrative depiction of the factors that agencies consider when setting fees. A detailed description of each agency's program, financial results, fee structure, and services appears in appendixes VII through XIII.

⁹Created under the authority of the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 481 (a)(3)).

Figure 1: Key Elements of the Fee-Setting Cycle



Programs Have Reported Revenue in Excess of Costs but Actual Costs Have Not Always Been Captured

All of the programs we reviewed except the Commerce and Transportation GWACs reported revenue in excess of costs for one or more fiscal years between 1999 and 2001. Table 2 shows reported earnings based on financial statements for the contract programs.

Table 2: Reported Annual Earnings¹⁰ (Losses) by Fiscal Year

| Interagency contract program | 1999 | 2000 | 2001 |
|------------------------------------|--------------|--------------------------|--------------|
| Commerce | (\$137,264) | (\$371,499) | (\$178,691) |
| GSA's Federal Technology Service | \$182,000 | \$2,412,000 | \$3,613,000 |
| NASA ^a | (\$957,373) | \$420,696 | \$646,645 |
| NIH | \$2,365,780 | \$1,390,388 | \$268,219 |
| Transportation | (\$852,064) | (\$298,662) | (\$960,156) |
| Interior franchise fund - GovWorks | \$238,262 | (\$190,373) ^b | (\$48,710) |
| Schedules program | \$39,455,650 | \$55,496,936 | \$56,370,055 |

^aNASA's earnings were prepared at our request because data available from the GWAC program were not sufficiently complete for financial statement purposes.

^bThis earnings amount is subject to change because a GovWorks fiscal year 2000 expense of \$488,000 was processed erroneously. Interior is taking action to correct this error.

Source: Contract programs' reported annual financial results.

Starting in 1999, OMB required that agencies with GWACs should identify, account for, and recover fully allocated actual costs in accordance with federal financial accounting standards.¹¹ Actual costs include direct costs, such as labor and materials, and indirect costs, such as rent and support services. However, agencies do not consistently report revenues and costs in accordance with OMB's guidance. They have developed their own approaches to accounting and to reporting program costs, and these approaches are evolving as the agencies make periodic changes.

OMB requires each GWAC agency to submit a semi-annual report of its activities. However, OMB has not required annual financial summaries of program results that would include a description of the agencies' indirect cost allocation methodologies and provide an entire year's worth of information on program results. Accordingly, OMB was unaware that not all agencies are reporting revenues and costs in accordance with its guidance. Further, while GSA identifies, allocates, and reports actual costs for both its GWAC program and the Schedules program, other agencies' records are not as complete. We found instances of incomplete identification and allocation of indirect costs, partial reporting of program results, and overstated indirect costs, as shown in the examples below.

¹⁰Appendixes VII through XIII include detailed data, including revenues, on each program.

¹¹OMB's executive agent designation letters state that the designation is granted with the understanding that the GWAC agency will adhere to and promote a series of policies and practices provided by OMB, such as recovery of fully allocated actual costs.

Without more complete information on the costs of interagency contract services, there is no assurance that fees accurately reflect costs.

- NASA does not include any costs for rent, utilities, contract support, or program management in the account that summarizes GWAC costs. Further, NASA components do not pay a fee for using the GWAC because of an agencywide practice of not charging fees to internal users of NASA's own contracts. Consequently, both the costs recorded in the GWAC account and GWAC revenues are understated. NASA officials noted that NASA is making an in-kind contribution to the program by not charging administrative costs, and that this contribution is sufficient to ensure that external customer fees are not subsidizing NASA's own use of the GWAC program. However, NASA provided us only a rough analysis, prepared in 1999, of the costs and potential revenues involved. NASA stated that it intends to periodically reassess its financial contribution to the GWAC program.
- NIH's GWAC financial results do not include some indirect costs for support services provided by the NIH Office of the Director, such as acquisition policy, budget services, and equal opportunity programs. In addition, the fiscal year 2001 financial results, prepared by NIH's financial office, reported GWAC earnings of \$57,837, an understatement due to two factors. First, reported revenues from NIH's internal customers were not combined with revenues from external customers. If internal and external revenues had been combined as one line item, reported earnings would have increased to \$268,219. Second, the program was overcharged by \$729,870 for indirect costs, including rent and utilities, because of an accounting error. NIH officials informed us that corrective actions have been taken on both problems for fiscal year 2002. However, NIH officials do not plan to identify or allocate additional Office of the Director's costs, because they do not believe it would be cost-effective to do so.
- Transportation's GWAC operates within the Transportation Administrative Service Center and is allocated a portion of the center's indirect costs. Indirect costs allocated to the program have fluctuated substantially from year to year. Such fluctuations significantly impact reported program operating results. For example, the GWAC's indirect costs jumped by more than 90 percent in fiscal year 2001, because the indirect cost allocation was based on an estimated GWAC sales volume that was not realized. This allocation was not adjusted at the end of the year to reflect actual sales. If actual sales had been used, the indirect

costs allocated to the GWAC would have been about \$600,000 lower and would have substantially reduced the program's reported loss of about \$1 million that year.¹² Program officials restructured their fees for fiscal year 2002, in part due to prior year losses.

Full costing is also a key principle of the franchise fund pilot programs. OMB's guidance states that the operation should be self-sustaining and that fees should fully recover costs. Interior's progress in identifying and recovering full costs has evolved over time. However, program officials have not fully allocated indirect costs at the department level.

Conflict Exists between GWAC Agencies' Operation of Their Revolving Funds and OMB's Guidance on Earnings

The legislation authorizing GWACs was silent with respect to how agencies should account for financial transactions under the contracts; for example, how to obligate funds for the contract and how to account for revenue. Thus, agencies administering GWACs were left to their own devices when determining whether these financial transactions would be accounted for through existing revolving funds or in stand-alone accounts. The GWACs at NIH, Transportation, and the Federal Technology Service operate under revolving funds, while NASA and Commerce operate their GWACs in stand-alone reimbursable accounts.

OMB guidance on earnings stipulates that (1) GWAC fees should be adjusted so that total revenues do not exceed actual costs and (2) revenues generated in excess of the agency's actual costs are to be transferred to the miscellaneous receipts account of the U.S. Treasury's General Fund. However, the way agencies operate their GWACs under revolving funds conflicts with OMB's guidance. Agency officials told us that they have accounted for GWAC revenue in the same manner that the law authorizes them to account for revenue from other programs in their revolving funds. Thus, they have used earnings generated by some products and services—including GWACs—to offset losses incurred by other products and services. Further, they are permitted to retain earnings in their revolving funds and use those earnings for authorized purposes of the fund, unless the law governing operation of the fund requires them to transfer amounts to the Treasury. Agency officials maintain that their fund

¹²For fiscal year 2001, the Transportation Administrative Service Center charged its business lines \$8.8 million for the center's indirect costs, more than double its actual costs of \$4.1 million. Transportation's Office of Inspector General reported in April 2002 that it plans to review how the center calculates and allocates its operating costs.

legislation prevails over the OMB guidance where there is a conflict between the two. OMB officials told us that they plan to review this issue.

The different approaches GWAC programs have taken when revenues exceeded costs are discussed below:

- From fiscal years 1999 to 2001, NIH reported revenues in excess of costs from its GWAC operations. For the 3 years combined, the GWACs' \$4 million of earnings offset \$3.6 million in losses in other revolving fund acquisition programs. For fiscal year 2001, the most recent year for which actual costs are available, reported GWAC earnings of \$268,219 offset other programs' losses of \$116,590. NIH lowered its fee for orders placed with its small business contractors for the two GWACs awarded in fiscal year 2001. The fee for orders with larger businesses did not change.
- Within its revolving fund, the Federal Technology Service's IT Solutions program manages GWACs and provides other information technology services to federal agencies. The program's earnings are used to provide resources for future investment based on revolving fund plans approved by OMB. Losses within segments of the program are offset against earnings in other programs or covered by using retained earnings from this fund. For example, \$3.6 million in earnings generated by GWACs in fiscal year 2001 offset losses in some other business lines, in particular the information security program.
- NASA does not have a revolving fund and, therefore, its GWAC operates in a stand-alone account. NASA records show that for revenues received in fiscal years 1999, 2000, and 2001, NASA's GWAC accounts had year-end balances of \$688,247, \$1,106,155, and \$573,114, respectively.¹³ NASA's practice has been to carry over balances remaining from one fiscal year to the next. However, NASA now intends to revise its current practice and to obligate funds in support of its GWAC in the fiscal year received, to the extent possible. NASA lowered its fees in fiscal years 1999 and 2000, and raised them for fiscal year 2001, when it awarded a new version of its GWAC.

¹³ Earnings results are reflected in table 2 and appendix IX.

Other interagency contracting services we reviewed allow the providing agency to retain funds. For example, franchise fund legislation¹⁴ allows Interior's franchise fund to retain an amount not to exceed 4 percent of the total annual income for the acquisition of capital equipment and other specified uses. The fund under which the GSA Schedules program operates is allowed to retain earnings for specific purposes, as discussed below.

GSA Schedules Program Fee Has Not Been Adjusted Despite Hefty Earnings

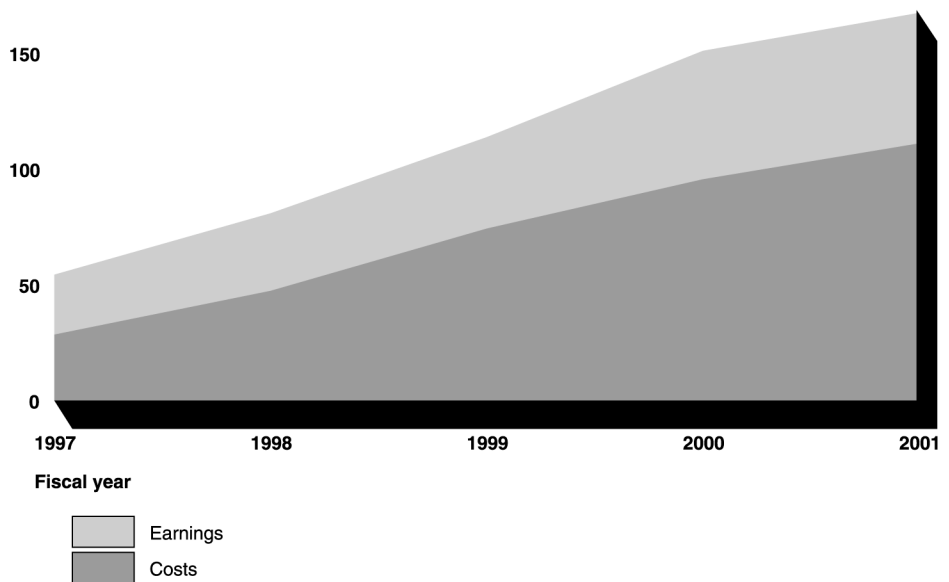
The fee charged by the Schedules program has consistently generated revenue well in excess of costs. From fiscal year 1999 to 2001, the revenue generated by fees exceeded program costs by 53.8 percent, or \$151.3 million. Program customers are, in effect, being overcharged for the contract services they are buying. Nevertheless, program officials have not adjusted the fee.

Because the program has been highly profitable since 1997, we analyzed the use of revenues in excess of costs over the past 5 years. From 1997 to 2001, the program reported \$210.8 million in earnings. Figure 2 shows earnings and costs during this period.

¹⁴P.L. 104-208, Sept. 30, 1996.

Figure 2: GSA Schedules Program Reported Earnings and Costs

200 In millions of dollars



GSA records show that it used the \$210.8 million in earnings as follows:

- \$192 million was used to support other programs, primarily GSA's fleet and stock programs. Support of the fleet program primarily involved financing the procurement of vehicles. Support of the stock program primarily involved offsetting substantial losses in fiscal years 2000 and 2001. The revolving fund legislation allows earnings to be used for these purposes.
- \$4.4 million of fiscal year 1998 earnings was transferred to the miscellaneous receipts account of the General Fund of the Treasury.
- GSA has not yet made a decision on how to use \$14.4 million of Schedules program earnings from fiscal year 2001.

The Schedules program fee was established at 1 percent in 1995. According to GSA officials, the program was intended to break even, with the fee recovering program costs including contract administration and program support. GSA officials explained that the profitability of the Schedules program is much greater than expected due to the inclusion of the information technology schedule and its dramatic growth. For fiscal

years 1997 through 2001, information technology revenues grew 287 percent, and this program now comprises about two-thirds of all Schedules program sales.

In 1999, the GSA Inspector General recommended that the fee be adjusted to bring it in line with costs, noting that for two years the program had been generating nearly twice the revenue needed to cover program costs.¹⁵ While GSA generally concurred with the recommendation, it did not implement a change in the fee at that time due to concerns about the administrative cost and the time such an action would entail. GSA told the Inspector General that it was not practical to take action until it was confident that the fee would be stable for an extended period of time. Despite an additional 3 years of similar earnings, GSA has taken no action to bring its fee in line with costs.

GSA maintains that it still has not experienced marketplace stability sufficient to accurately forecast the Schedules business volume. Further, GSA officials stated that adjusting the fee would be burdensome for the thousands of Schedules contractors. They said that one key obstacle is that the 1 percent fee is embedded in the unit cost of the goods and services on the Schedules. Our review showed that some other interagency contract programs, such as NIH's and NASA's GWACs, have established their fees as add-ons to the price of goods and services. This approach gives them the flexibility to change their fees without affecting the unit price of their goods and services and provides transparency to customers on the fee being paid.

OMB has expressed concern about the large earnings the Schedules program has generated. With a 3-year restructuring of its business lines nearing completion, and recognizing the need for flexibility in setting Schedules program fees, GSA is now considering options to design a flexible fee adjustment. GSA plans to work with OMB to identify alternatives to the current pricing structure in the development of the President's fiscal year 2004 budget request.

¹⁵GSA's Office of the Inspector General, *Audit of the Federal Supply Service's Industrial Funding Fee For the Schedules Program*, Report Number A83309/F/H/V99513 (Washington, D.C.: May 28, 1999).

Conclusions

The increasing use of interagency contract programs makes it imperative that Congress and federal agencies receive reliable information on the fees charged and earnings generated by these programs. However, some agencies are not identifying, determining accurately, or recovering the full costs of their programs as directed by OMB. Thus, there is no assurance that the fees they are charging accurately reflect their costs. Further, because some agencies have not submitted to OMB complete annual financial results, OMB is not receiving clear information on how earnings have been used and whether fees were adjusted accordingly. OMB needs better information so that it can more easily identify management weaknesses when they arise and work with GWAC agencies to overcome them.

The conflict between the way agencies are operating their revolving funds—using GWAC earnings to support other programs—and OMB’s guidance on the handling of earnings is a matter of concern. The agencies have not brought the problem to OMB’s attention. In its monitoring and oversight role over the GWAC program, OMB needs to determine how this conflict can be addressed.

Despite consistently high earnings in the Schedules program, GSA has not adjusted the 1 percent contract service fee it charges customers. Program customers are, in effect, being consistently overcharged for the contract services they are buying, while GSA is using excess earnings to support other programs. We believe that the fee should be adjusted to reflect costs more closely.

Recommendations for Executive Action

We recommend that the director of OMB

- ensure that GWAC executive agents comply with OMB guidance on full cost accounting in establishing their fees.
- direct GWAC executive agents to provide OMB with (1) annual financial reports containing costs and revenues that summarize annual program results and the need for any fee adjustments and (2) a discussion of how earnings have been used.
- work with GWAC executive agents to address the handling of GWAC earnings, including appropriate disposition of funds and adjustment of fees.

Also, we recommend that the administrator of GSA

- adjust the Federal Supply Schedules program fee to reflect costs more closely.

Agency Comments

We received written comments on a draft of this report from OMB, GSA, NASA, NIH, and the Department of the Interior. The Department of Transportation offered technical comments, which we incorporated as appropriate.

OMB noted that its general framework on fee policies and accounting practices is well-founded, but that additional attention is needed to ensure that its guidance is being followed effectively. OMB stated that it intends to work with OMB's Office of Federal Financial Management and the agencies to evaluate appropriate revisions to its reporting requirements on fees so that disparities between fees charged and costs incurred can more easily be identified and addressed. OMB also intends to work with GWAC executive agents and the GSA's Federal Supply Service to address the handling of excess revenues generated by their programs, including appropriate disposition of funds and adjustment of fees. OMB also provided oral comments, and we made revisions to the text as appropriate. OMB's letter appears in appendix II.

GSA took exception to our statement that the Schedules program produced "exceptionally high earnings" from fiscal years 1999 through 2001. We believe that this characterization is warranted, based on the fact that revenues exceeded costs by more than 53 percent or \$151 million during this period. GSA also commented that "the statement that profits from the Schedules program are being held at too high a level in order to offset losses in another program is incorrect." We revised the text to indicate that earnings from the Schedules program were used to offset losses in the stock program and to finance vehicle purchases for the fleet program. GSA also stated that it does not seem very practical to compare the much smaller numbers of contracts at NASA and NIH with the number of Schedules contracts that would have to be renegotiated if the fee were adjusted. Our intent was to point out that because the fee add-on mechanism is used by other agencies, it may be one option GSA could consider in adjusting its fee.

Finally, while agreeing that the current fee mechanism lacks the flexibility to match costs and revenues over time, GSA pointed out the complexity of such an undertaking and the desire to minimize the impact on customers,

contracting partners, GSA, and the Schedules program itself. We acknowledge the complexity of implementing a flexible fee structure. However, given that the program has consistently reported earnings well in excess of costs for several years, we believe steps need to be taken now to begin the process of adjusting the fee. GSA also offered technical comments, which we have incorporated as appropriate. GSA's letter appears in appendix III.

The Department of the Interior stated that the information and recommendations in our report provide OMB helpful guidance for oversight of a growing interagency program. The Department noted that the reported operating results provided for fiscal year 2000 reflect a \$488,000 processing error, which the franchise fund program is correcting. We have reflected this information in Table 2 and in appendix XII. An additional technical comment has also been incorporated. The Department of the Interior's letter appears in appendix IV.

NASA characterized as misleading the statement in our draft report that NASA had not prepared earnings statements for its GWAC program. In fact, while NASA provided semi-annual reports to OMB for fiscal year 2001, it had not prepared financial statements for the GWAC program, and the data available from the program were incomplete for financial statement purposes. In responding to our draft report, NASA prepared the financial results that accompany its comments. These annual results are substantially different than the semi-annual earnings results that NASA had reported to OMB for fiscal year 2001. On a combined basis, the semi-annual reports showed a loss of \$235,817, whereas the annual financial results showed that the program had earnings of \$646,645. We have incorporated the latest results into table 2 and appendix IX.

NASA also provided additional details on its rationale for not assessing costs to NASA customers for use of the GWAC and asserted that NASA has not used assessments against other agencies to cover its share of the administrative costs. We have reflected these points in the report. NASA also stated that program personnel conducted a "deliberative analysis" of the costs involved. However, program personnel provided us with only a rough analysis, prepared in 1999, to support the cost assessment. NASA plans to periodically reassess the apportionment of NASA and non-NASA costs and NASA's in-kind contribution versus the fees paid by external customers.

NASA also elaborated on its rationale for carrying over balances remaining from one fiscal year to the next. It now plans to revise this practice and to

obligate, to the extent possible, funds in the fiscal year they are received. Recognizing that NASA's lack of authority for a working capital fund has caused concerns about the authority under which it manages its GWAC, NASA has proposed legislation to establish a fund for the agency in fiscal year 2003. Finally, NASA asserts that the Economy Act¹⁶ provides authority for NASA to receive funds and apply those funds over periods of time, including across fiscal years, in order to support its GWAC program.¹⁷ NASA's letter, with attachments, appears in appendix V.

NIH commented that our report will enable the agency to continue to improve its information technology services and strengthen oversight of these services to both NIH and other federal agencies. NIH noted that the GWAC program office will continue to strive to comply with and promote OMB's reporting requirements for GWACs. NIH also offered technical comments that we incorporated as appropriate. NIH stated that revenues (and thus earnings) were not understated to OMB because revenues from internal customers were included in semi-annual reports to OMB. However, those revenues were not attributed to the GWAC program in NIH financial statements, which were prepared by NIH's financial office. Further, on a combined basis, NIH's semi-annual reports to OMB showed a loss of \$814,629, whereas the annual financial results showed that the program had earnings of \$268,219. NIH's letter appears in appendix VI.

As requested by your office, unless you publicly announce the contents of this report earlier, we plan no further distribution of it until 30 days from the date of this letter. We will then send copies of this report to other interested congressional committees and to the Secretaries of Commerce, Health and Human Services, Interior, and Transportation; the Administrator, GSA; the Administrator, NASA; and the Administrator of OMB's Office of Federal Procurement Policy. We will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

¹⁶31 U.S.C. 1535 and 1536.

¹⁷As noted in footnote 5, we sent a letter to NASA requesting information on how NASA operates its GWAC consistent with applicable fiscal laws.

If you have any questions regarding this report, please contact me at (202) 512-4841. An additional contact and other key contributors are listed in appendix XIV.

Sincerely yours,

A handwritten signature in black ink, reading "David E. Cooper". The signature is fluid and cursive, with the first name "David" being the most prominent.

David E. Cooper
Director
Acquisition and Sourcing Management

Appendix I: Scope and Methodology

We focused our review on all five agencies granted executive agent status by the Office of Management and Budget (OMB) to provide governmentwide acquisition contracts (GWACs) for information technology. The five agencies with such authority are the General Services Administration (GSA), the National Institutes of Health (NIH), the Department of Transportation, the National Aeronautics and Space Administration (NASA), and the Department of Commerce. In addition, we collected similar information about the GSA Schedules program and the primary contract service program within the Department of the Interior's franchise fund pilot program. Interagency purchases of information technology made from the GSA Schedules program exceed those made from all GWAC programs combined. Interior's GovWorks acquisition program is the largest component of the Department of the Interior's franchise fund.

To examine the fees being charged, we identified reported revenues and costs. We also reviewed the fee structure and how it changed during fiscal years 1999 through 2001. We reviewed agency financial statements and annual reports for fiscal years 1999 through 2001, as well as the supporting revenue and cost data for each program, the OMB executive agent designation and financial management guidance, the contract activity reports submitted to OMB, the *Statement of Federal Financial Accounting Standards Number 4: Managerial Cost Accounting Concepts and Standards for the Federal Government* developed by the Federal Accounting Standards Advisory Board, and relevant legislation. We did not independently verify the accuracy of the operating results reported for each program. We interviewed and obtained information from officials in the contract program and financial offices at the Departments of Commerce, Transportation, and Interior; NIH; NASA; and GSA. We also held discussions with officials in OMB's Office of Federal Procurement Policy and Office of Federal Financial Management.

To determine provider agencies' ability to retain earnings, we reviewed relevant legislation for each program. We interviewed contract program managers and financial officials at the Departments of Commerce, Transportation, and Interior; NIH; NASA; and GSA. We also held discussions with officials in OMB's Office of Federal Procurement Policy and the offices of the inspector general at the Departments of Transportation and Interior and at GSA. To assess the agencies' compliance with OMB's guidance regarding the use of earnings, we reviewed financial reports and held discussions with program officials regarding funds transferred to the miscellaneous receipts account of the General Fund of the U.S. Treasury.

We conducted our review from May 2001 to June 2002 in accordance with generally accepted government auditing standards.

Appendix II: Comments from the Office of Management and Budget



OFFICE OF FEDERAL
PROCUREMENT POLICY

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

July 17, 2002

Mr. David E. Cooper
Director
Acquisition and Sourcing Management
General Accounting Office
Washington, DC 20548

Dear Mr. Cooper:

I have been asked to respond on the Director's behalf to your May 24, 2002 request for comment from the Office of Management and Budget (OMB) on your draft report, GAO-02-734. This report discusses fee practices and policies associated with inter-agency contract programs.

OMB has taken several key steps to provide an appropriate framework for the establishment and handling of fees by the agencies that operate the inter-agency contracts examined by the General Accounting Office (GAO). For example, each agency that serves as an executive agent for a government-wide acquisition contract for information technology (GWAC) under a designation granted by OMB pursuant to section 5112(e) of the Clinger-Cohen Act (40 U.S.C. 1412(e)), is required, by the terms of the designation issued by OMB, to account for and recover fully allocated actual costs in accordance with the Statement of Federal Financial Accounting Standards 4, Managerial Cost Accounting Concepts for the Federal Government, issued by the Federal Accounting Standards Advisory Board (FASAB). While the FASAB standard appropriately permits some degree of flexibility in the execution of the accounting, its ultimate aim is to ensure that agencies obtain reliable and timely information on the full cost of agency programs.

In addition to accounting for costs, OMB has made provisions to address the handling of excess revenues. GWAC executive agents are required to adjust their fees so that total revenues do not exceed actual costs, and revenues generated in excess of the agency's actual costs are transferred to the miscellaneous receipts of the General Fund of the Treasury. In the implementation of this principle, we recognize that certain funds, such as the Information Technology Fund, 40 U.S.C. 757 (which is used to support activities for GWACs operated by GSA's Federal Technology Service), provide for GSA to retain revenues in an amount determined by OMB to cover operating needs of the fund.

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OMB believes the general framework described above for addressing fees remains well-founded. At the same time, we recognize the need for additional attention to ensure these fee policies and accounting practices are being followed effectively. In our most recent GWAC redesignations (issued at the end of March), we specifically instructed executive agents to augment their reporting to OMB on revenues and costs to discuss their strategy for re-calculating fees to correct any differences between revenues and costs. In response to GAO's draft recommendations, we intend to work with OMB's Office of Federal Financial Management and the agencies to evaluate appropriate further revisions to this reporting so that OMB can more easily recognize possible disparities between fees charged and costs incurred and work with the agencies to address these disparities when they arise. We also intend to work with GWAC executive agents and the General Services Administration's Federal Supply Service (FSS), which operates the Multiple Award Schedules Program, to address the handling of excess revenues generated by these respective programs, including appropriate disposition of funds and adjustment of fees. We have already initiated discussions with FSS to explore alternative approaches to its current pricing structure and retention policy.

I appreciate the opportunity to comment on the draft report.

Sincerely,



Angela B. Styles
Administrator

Appendix III: Comments from the General Services Administration



GSA Administrator

July 12, 2002

The Honorable David M. Walker
Comptroller General
of the United States
General Accounting Office
Washington, DC 20548

Dear Mr. Walker:

We appreciate the opportunity to comment on the United States General Accounting Office (GAO) draft report, "Contract Management: Interagency Contract Programs Need More Oversight" (GAO-02-734).

Please find the enclosed General Services Administration (GSA) comments to the report findings and recommendation concerning adjusting the Federal Supply Schedules program fee to reflect costs more closely.

If you have any additional questions or need further assistance, please have a member of your staff contact Mr. Ralph Boldt, Branch Chief, Audit Followup and Evaluation Branch, on 202/501-3094.

Sincerely,

A handwritten signature in black ink, appearing to read "Stephen A. Perry".

Stephen A. Perry
Administrator

Enclosure

U.S. General Services Administration
1800 F Street, NW
Washington, DC 20405-0002
Telephone: (202) 501-0800
Fax: (202) 219-1243
www.gsa.gov

General Services Administration Comments
On the GAO Draft Report, "Contract Management: Interagency
Contract Programs Need More Oversight"
(GAO-02-734)

GENERAL

Findings (page 2, paragraphs 1 and 2):

The Schedules program is much larger in the number of contracts and the volume of transactions than those in the Department of the Interior. Since the scope and depth of the programs are vastly different, we suggest that the relative size be identified to give some context to the size of each.

Findings (page 3, paragraph 3):

The following comments are offered:

First Sentence: We suggest that it might be more appropriate to use the words "large" or "significant" versus the word "hefty" in describing the earnings generated. Also, please consider the same revision for the heading on page 11.

Second Sentence: The decision on how to use earnings is not made by "Schedules program officials" but rather by various GSA management officials. We suggest the sentence be amended to reflect "GSA officials". Also, the reference to GSA's stock program should be revised to GSA's Supply Business Line. It should also be noted that the Stock program historically has been part of the Supply and Procurement Business Line and the Schedules program has been just one of the methods of supply. This will change effective October 1, 2002, when Supply and Procurement are separated into distinct business lines.

The statement that profits from the Schedules program are being held at too high a level in order to offset losses in another program is incorrect. Profits and losses on individual programs are fully disclosed in our General Supply Fund (GSF) internal and external financial statements. The earnings retained in the GSF are used as a source of capital to provide equity financing for the replacement of assets, primarily vehicles, as authorized by law. Additionally, these funds can only be retained when there is a documented need in the Fleet program to enter into agency vehicle consolidation actions where it can be proven that the Government saves substantial additional funds through consolidation of other agencies' fleets. With regard to losses in the Supply program, the Supply and Schedules programs were simply two components of the same business line, each using a different methodology to provide customer

support. Historically, there were times when the Supply segment of the business line produced more excess revenue than Schedules. In fact, during the first year of the Schedules cost recovery operation, revenues did not fully offset costs, producing a loss of \$2.4 million. As time has progressed, business methods and customer needs and preferences have changed resulting in significant growth for the Schedules program. In response, GSA has spent the last three years consolidating operations and redefining our business model so that the Supply program can position itself to meet changing customer requirements. Therefore, it is incorrect to view the Schedules program as subsidizing the stock program. The GSF provides the flexibility for GSA to respond to changing requirements through the authorities granted to the GSA Administrator under the Federal Property and Administrative Services Act of 1949, as amended. Supply and Schedules are complementary programs.

Footnote 6: Revise "GSA's stock program" to "GSA's Supply Business Line." Also, the reference to the "motor vehicle" program should be revised here and throughout the report to the "Fleet program."

Finding (page 7, Chart): As referenced earlier, since the scope and depth of the programs are vastly different, we suggest that the relative size be identified to give some context to the size of each.

Finding (page 7, paragraph 1): Concerning full cost recovery, GSA supports best practices for full cost recovery operations in accordance with Federal accounting standards, which should be applied to cost recovery programs across the Government.

Finding (page 7, paragraph 3): We suggest the word "relatively" be deleted.

Finding (page 11): The General Accounting Office (GAO) states that the Schedules program produced exceptionally high earnings with revenues exceeding costs by more than 53 percent or \$151 million during a three-year period. This statement is somewhat misleading due to the unique business model developed for the Schedules program. To break even, GSA would have to be able to calibrate the fee in tenths of a percentage point. Additionally, the phrase "exceptionally high earnings" depends on one's perspective. It might be more appropriate if the report just stated that the Schedules program produced earnings of \$151 million during the three-year period.

Finding (page 13, paragraph 1): Concerning the statement that the GSA Inspector General (IG) recommended the fee be lowered and that GSA concurred but has taken no action to implement it, it should be noted that the IG's actual recommendation was that we "[a]djust the fee to bring revenue in line with costs." While we generally concurred with the recommendation, the IG was advised that we did not plan to adjust the fee at that time because the administrative cost of changing the fee and the time it

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would entail would be significant. The IG was advised that we would adjust the fee when we were confident that the fee would be stable for an extended period of time.

Since the issuance of the IG report, we have not experienced stability in the marketplace that would allow us to accurately forecast our business volume. Additionally, the acquisition regulatory climate, which has potentially significant impacts on the usage of the Schedules program, has not been stable. Consistency in the Industrial Funding Fee (IFF) has great value to both our customers and our contractors. Given the uncertainty of the market and the fact that neither group raised concerns regarding the rate, we have maintained the fee at its present level. It is also important to note that for the last three years we were in the midst of restructuring the Supply program. The restructuring effort caused additional uncertainty regarding our business line projections. Now that the Supply program restructuring is almost complete, we are reviewing options, processes and impacts to design a flexible IFF adjustment.

Finding (page 13, paragraph 2): The GAO report states that "some other interagency contract programs, such as NIH and NASA GWACS, have established their fees as add-ons to the price of goods and services." We suggest that there be some explanation of the number of contracts involved as well as how many are small and disadvantaged businesses. Comparing approximately 40 contracts from NASA and NIH with over 10,000 contracts from GSA that would have to be renegotiated does not seem very practical. Using add-ons might not be the most efficient way to adjust the fee.

Appendix VIII (page 38, Chart): The chart reflects rates charged for Special Orders, Simplified Acquisition, and Definite Quantity contracts. These are not interagency or GWAC contracts in the same sense as used in this report. These contracts are used to meet specific or unique requirements and are not shared contracts as with GWACs or Schedules, although orders from different agencies can be consolidated into one contract as with automotive procurements. In these three areas, when something needs to be bought, a unique contract generally has to be prepared to meet the requirement, and this is generally done for a single customer or small groups of customers. This is what accounts for the higher rate. These contracting mechanisms are not otherwise mentioned in the study, and all the other numbers quoted for GSA in this study reflect Schedules only. We suggest that GAO remove these line items and the footnotes, discussed below, from the chart.

Appendix VIII, page 38, Footnote a to Table VIII): This footnote misstates GSA's pricing policy for these acquisition programs. A range of fees is established based on annual analyses of program costs and trend-based projections of

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business volumes. The fee/pricing objective is to generally break even. However, for some small orders, fees are established to encourage better leveraging of the Government's buying power through aggregate purchases.

Appendix VIII, page 38, Footnote b to Table VIII): This footnote misstates the definition of the Special Orders program. Special order contracting employs competition in accordance with Federal Acquisition Regulations. It is used when customers request GSA to provide full-service acquisition support.

Recommendation (page 14, fourth bullet):

The Administrator of GSA adjusts the Federal Supply Schedules program fee to reflect costs more closely.

Comment:

GSA agrees that the current schedule cost recovery mechanism IFF lacks the flexibility to match costs and revenues as they change over time. Enhancing the IFF process will be a complex undertaking as considerable efforts will be required to minimize the impacts on customers, contracting partners, GSA, and the long-term effectiveness of the program, but GSA agrees that it needs to be done. We welcome the opportunity to discuss this matter further.

Appendix IV: Comments from the Department of the Interior



United States Department of the Interior

OFFICE OF THE ASSISTANT SECRETARY
POLICY, MANAGEMENT AND BUDGET
Washington, D.C. 20240

JUL 01 2002

Ms. Michele Mackin, Assistant Director
Acquisition and Sourcing Management
United States General Accounting Office
Washington, DC 20548

Dear Ms. Mackin:

We have reviewed the U.S. General Accounting Office's proposed report entitled *Contract Management: Interagency Contract Programs Need More Oversight* (GAO-02-734; job code 120075), and find it to be both informative and useful. The information and recommendations provide the Office of Management and Budget helpful guidance for oversight of a growing interagency program. We believe that all agencies will welcome better accounting and reporting guidelines to ensure consistency across the Government.

The Minerals Management Service has provided the following suggested changes to the report for your consideration:

- Appendix VII, Franchise Fund Pilot Data Sheet-Department of the Interior, Page 36 of the report:
 - Table VII.1 shows reported annual operating results for GovWorks' portion of Interior's franchise fund (IFF). Due to a processing error in Fiscal Year 2000, \$488,000 was erroneously reported as bad debt expense by GovWorks. The IFF is correcting the error.
 - The last sentence of the history section should be changed to show that GovWorks began operations in 1997 as part of Interior's franchise fund.

We appreciate the opportunity to review and comment on the proposed report. If you have any questions regarding our comments, please contact Debra Sonderman, Director, Office of Acquisition and Property Management, on 202-208-6352.

Sincerely,

P. Lynn Scarlett
Assistant Secretary - Policy,
Management and Budget

Appendix V: Comments from NASA

National Aeronautics and
Space Administration
Office of the Administrator
Washington, DC 20546-0001



July 15, 2002

Mr. David E. Cooper
Director
Acquisition and Sourcing Management
United States General Accounting Office
Washington, DC 20548

Dear Mr. Cooper:

NASA has reviewed the draft GAO report "Contract Management: Interagency Contract Programs Need More Oversight" (120075) and thanks you for the opportunity to provide comments. The information gathered from your report should help us improve NASA's Governmentwide acquisition contracts.

Although there were no formal recommendations, NASA is cognizant of the fact that the report noted an earnings statement for the Scientific and Engineering Workstation Procurement (SEWP) program, which has not been prepared. We do have several concerns with GAO's characterization of the SEWP program. The enclosed provides some discussion for GAO's consideration in how the SEWP funding and reporting situation is reported. NASA believes that SEWP provides significant benefit to the community and will continue to take steps to improve our process for accounting of all funds.

If you have any questions, or require additional information, please contact Thomas Luedtke, Assistant Administrator for Procurement, at 358-2090.

Cordially,

A handwritten signature in black ink, appearing to read "M. Christensen" with a stylized flourish at the end.

Michael D. Christensen
Associate Deputy Administrator for
Institutions

Enclosure

NASA respectfully provides the following comments on the draft Report to the Chairman and Ranking Member, Committee on Governmental Affairs, U.S. Senate titled "Contract Management - Interagency Contract Programs Need More Oversight," GAO-02-734.

1. The Report in (1) Note a to Table 2 on pages 6/7, (2) the last sentence under the NASA section on page 8, and (3) Table IV.1 and the first paragraph following on page 26, notes that NASA has not prepared earnings statements for the SEWP Program. This statement is misleading.

In the two delegations issued by the Office of Management and Budget (OMB), responsible for issuing direction to agencies designated under Clinger-Cohen, NASA has been directed to provide a Contract Activity Report in accordance with the elements identified as Enclosure B to the delegations. These Reports are due on a semi-annual basis to the Administrator of the Office of Federal Procurement Policy (OFPP). NASA has complied with this reporting requirement to OMB, and NASA has also provided this information to GAO as part of GAO's audit. NASA reports have provided the information requested by Enclosure B, except for the indirect costs and FTE costs covered by NASA's contribution, thus not fully reflecting total contract administration costs.

However, in response to the concern expressed by GAO, NASA is providing herewith, as an enclosure, a SEWP financial statement. This statement provides information that will complete the "not reported" categories reflected in the GAO report's tables on pages 6/7 and 26.

2. The Report makes the point in the NASA discussion on page 8 and under the "Fees" section on page 26 that NASA did not include costs for rent, utilities contract support (meaning Government procurement personnel), or program management in the costs calculated for reimbursement by non-NASA customers, and NASA did not assess the surcharge/fee rate, which was applied to other agencies, to NASA purchases. The Report characterizes this as an offset.

In fact, the history of the SEWP procurements shows that initially NASA did assess these costs against both NASA and non-NASA customers. When it was decided that rates should not be assessed against NASA customers, program personnel conducted a deliberative analysis of all types of costs projected to be incurred by NASA in administering the GEWAC contracts. NASA estimated the percentage of NASA versus non-NASA business in order to apportion costs. NASA very clearly never intended to, and has not, used assessments against other agencies to cover its share of the administrative costs. NASA decided that in order to cover its share of these costs, it would provide labor and indirect coverage, funded by NASA funds internal to NASA, supporting both NASA and non-NASA transactions, and would exclude such costs from the assessment calculated for payment by non-NASA customers. The non-NASA "contribution" would then equate to the costs actually requiring funding by NASA, such as a task under a support service contract, supporting both NASA and non-NASA transactions.

This does result in an understatement of total administrative costs, contrary to that required by the OMB reporting requirements. However, it does not result in a subsidy of either NASA or non-NASA agency costs by the other party (ies).

We recognize that periodically the apportionment between NASA and non-NASA costs, and the extent of in-kind NASA contribution versus the non-NASA contribution of funding of remaining costs, should be reassessed. NASA intends to undertake such a reassessment periodically.

This approach is important to recognize in view of the context of the Report's discussion of the various agencies' practices, introduced by the statement: "We found instances of incomplete identification and allocation of indirect costs, partial reporting of program results, and overstated indirect costs, as shown in the following examples" on page 7. The understated costs did not result in either overpayment or underpayment by any agency for benefits received from the GWAC contracts.

3. We understand there may be some confusion about the nature of services whose costs are assessed as administrative costs against purchases by non-NASA agencies. NASA administers a support service contract with Indus, Contract No. NASS-02038. Section 3.4.2 describes the general, continuing requirements NASA has placed on that contractor to provide services to all potential and actual SEWP customers. A copy of that section of the SOW is enclosed. Additionally, NASA has issued Task # 3603 under the indefinite-delivery, indefinite-quantity portion of that contract, again specifically for SEWP support in the area of IT security. A copy of that task is also enclosed. A summary of these services is also provided on the SEWP web site, which is enclosed. These services are used extensively by SEWP customers, whose costs are those contemplated by OMB guidance to be assessed against customer agencies.

4. The Report in the discussion on page 10 states that balances were not obligated or expended in one fiscal year and were carried over as available for use in future years. It attributes a statement to the GWAC program manager that funds "must be carried over" to future years to pay the costs of maintaining GWAC operations while awaiting revenues from contractors.

This is again misleading. NASA's practice has been in fact to carry over balances remaining from one fiscal year. However, NASA's approach has been to identify types of costs, such as a task under a support service contract, and fund such costs on a periodic and continuing basis in larger amounts. In fact, much of the balance remaining in a given fiscal year could have been obligated in the fiscal year received, and NASA intends to revise its practice to in fact obligate those funds in the fiscal year received to the extent possible.

It is important to recognize that the operational costs of the GWAC contracts occur over a continuum of time. Indeed, the OMB delegation allows for establishment of periods of time sufficient for calculation of costs and receipts, and obligation and costing of funds,

as determined by the agency, without reference to the end and beginning of fiscal years. "In accordance with the Statement of Federal Financial Accounting Standards (SFFAS) IV: Managerial Cost Accounting Standards and Concepts for the Federal Government with support provided by the Managerial Cost Accounting standards Guide, the executive agent shall have an accountability structure and financial systems that assure the identification, accounting, and recovery of the fully allocated actual costs." (Enclosure B of OMB Delegation)

The legislative history underlying the Clinger-Cohen provisions by which OMB exercises such authority expressly recognizes the Economy Act as applicable to these transactions. "The conferees intend that the requirements and limitations of the Economy Act, and other provisions of law, apply to these multi-agency acquisitions." (House Conference Report No. 104-450, January 22, 1996, p. 977 published at 1996 USCC&AN, Vol. 4, p. 463.) This constitutes authority for designated agencies to receive funds and apply those funds to costs over periods of time necessary to manage the OMB-approved programs.

As manager of the subject GWAC contracts, NASA must have sufficient funds available to cover costs incurred at the beginning of a fiscal year. Those costs reflect both NASA and non-NASA support. The above-referenced requirement contemplates reconciliation of costs and receipts over periods of time, which enable the flexibility to apply funds for a transaction even across fiscal years.

When one examines the entire history of the three SEWP phases, non-NASA receipts coupled with NASA's in-kind contributions have indeed closely approximated the total costs of the program.

5. Finally, we understand that some of these issues have been raised concerning NASA's management of the SEWP GWAC program, which have not been raised about other agency programs, due to NASA's lack of authority for a working capital fund. As NASA described to GAO representatives in meetings between the two agencies, NASA has proposed legislation to establish a working capital fund for the agency in FY03. Initial discussions have already taken place with congressional staff; the necessary language is included as Section 311 in the proposed National Aeronautics and Space Administration Authorization Act, 2003.

SEWP - NASA/GSFC

| | INCOME | EXPENSES | VARIANCE |
|------|-----------------|-----------------|----------------------|
| FY99 | \$ 1,547,852.85 | \$ 2,505,226.31 | \$ (957,373.46) |
| FY00 | 2,571,705.24 | 2,151,008.97 | 420,696.27 |
| FY01 | 3,200,857.95 | 2,554,213.13 | 646,644.82 |
| | | | <u>\$ 109,967.63</u> |

INCOME = value of SEWP orders for each year x rate

EXPENSES = costs incurred each year

4. Prepare and maintain training area.
5. Prepare, update, and maintain training catalog and other courseware material.
6. Seek input on course requirements from the technical community.
7. Maintain training quality feedback system.
8. Provide assistance to all Learning Center users.
9. Meet the product and service quality requirements of the customer.
10. Proactively communicate with customers regarding problems or changes with their work.
11. Research and investigate new training methodologies (i.e. distance learning, webcasting, etc.).

3.4.2 Scientific and Engineering Workstation Procurement (SEWP) Support

At a minimum, the Contractor shall provide staff from 8:00 a.m. to 7:00 p.m., Monday through Friday, except for Federal holidays. GSFC is responsible for administering the government-wide SEWP contract. This contract is available to all Government Agencies for the purchase of high-end, high performance computing devices. The Contractor processes orders, maintains a test and demonstration laboratory, tests product compliance, develops reports and metrics, and ensures customer satisfaction. The Contractor shall be expected to provide these services on a rapid turnaround basis with little or no advance notice, when required.

The minimum requirements include the following:

1. Receive work through the Project Manager, COTR, or customer.
2. Perform work on the customer's schedule and within budget.
3. Meet the product and service quality requirements of the customer.
4. Proactively communicate with customers regarding problems or changes with their work.
5. Staff, operate and maintain a customer service office in Greenbelt.
6. Respond directly to customer telephonic, e-mail, fax and walk-in inquiries.
7. Provide SEWP catalogs.
8. Assist the Government in outreach and marketing activities in support of the SEWP program.
9. Process customer delivery orders.
10. Staff, operate and maintain a testing and demonstration laboratory.
11. Attend information technology conferences and staff the SEWP information booth.
12. Provide SEWP UNIX system and Administrative services.
13. Develop and maintain SEWP specific software applications.
14. Partner with the Government in researching and testing future technologies.

3.5 Applications Development and Sustaining Engineering Services

The Contractor shall provide support for software applications development services and sustaining engineering support for mission business information systems. This work may include the development of an application's architecture through data conversion, sustaining engineering, maintenance, and network and distributed server support. The Contractor shall provide application development services that include the full range of application lifecycle management activities. The Contractor shall perform systems requirements analysis, design, coding, testing, integrating, validation, and verification of software programs for the development of business information systems. The Contractor shall support new application development using the appropriate modern tools and Internet/Web development strategies. The Contractor shall provide support in the area of software applications sustaining engineering support. This work shall be done by highly skilled and trained personnel. The Contractor shall perform systems analysis, design, coding, integrating, validation, verification, and testing of software programs. This includes new development, enhancements, and maintenance of business information systems. The Contractor shall provide the

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PAGE 02/05

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|---|--|---|--|---|
| GODDARD SPACE FLIGHT CENTER | | TASK ORDER (INSTRUCTIONS AND DISTRIBUTION ON REVERSE) | | PAGE 1 OF 2 |
| 1. CONTRACTOR: INDUS | | 2. CONTRACT NO.: NASS-02038 | 3. TASK/REVISION NO.: 3603 | |
| 4. JOB ORDER NO./PROJECT: | | 5. FLIGHT HARDWARE/SOFTWARE: CRITICAL GSE (IF YES, OBTAIN BLOCK 16 CONCURRENCE): <input type="checkbox"/> YES <input type="checkbox"/> NO | | 6. DESIGNATED FLIGHT ASSURANCE MGR.: |
| <p>7. DESCRIPTION OF WORK TO BE PERFORMED (OBJECTIVES OR RESULTS DESIRED):</p> <p><input type="checkbox"/> CONTRACTOR WILL DEVELOP STATEMENT OF WORK OR SPECIFICATIONS UNDER THIS TASK.</p> <p>The purpose of this task is to provide all required support for the development and operation of the SEWP Security Center (SSC). The SSC is concerned with the four primary topics of information security: authentication /authorization, confidentiality, integrity, and availability-with a primary focus of interoperability. The SSC will work to promulgate interoperability through research in leading edge technologies, by working with standards organizations, and through trial and technical reference implementations. The SSC also does work involving practical security tools in the areas of vulnerability assessment, intrusion detection and system auditing.</p> <p>The contractor shall provide a SEWP Security Center Director and other necessary management/technical support for the development and administration of the SSC, and to support the work described above.</p> <p>(continued on the next page)</p> <p>8. TASK DOCUMENTATION REQUIREMENTS/DELIVERABLE ITEMS:</p> <p>9. PERFORMANCE/MILESTONE SCHEDULE: March 1, 2002 - September 30, 2002</p> <p>10. QUALITY ASSURANCE REQUIREMENTS:</p> <p>11. TRAVEL, MATERIALS, ETC., KNOWN TO BE REQUIRED:</p> <p>12. OTHER (FUNDING, NTE, HOURS, ETC.):</p> | | | | |
| 13. TASK ORIGINATOR/MONITOR/CODE/PHONE: <i>jeanette h / 290 1301-286-7695</i> | | | 18. THIS TASK ORDER IS ISSUED PURSUANT TO THE TERMS OF THE CONTRACT. <i>Tammy Seidel 3/1/02</i> CONTRACTING OFFICER'S SIGNATURE/DATE | |
| 14. BRANCH APPROVAL: | | 15. DIVISION CONCURRENCE: | | |
| 16. CONTRACTING OFFICER'S QUALITY REPRESENTATIVE: | | | | |
| 17. CONTRACTING OFFICER'S TECHNICAL REPRESENTATIVE: <i>Carla B. Patterson 2/22/02</i> | | | | |
| TYPED OR PRINTED NAME TAMMY E. SEIDEL CONTRACTING OFFICER | | | | |

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| | | |
|--|---|-------------|
| GODDARD SPACE FLIGHT CENTER | TASK ORDER (INSTRUCTIONS AND DISTRIBUTION ON REVERSE) | PAGE 2 OF 2 |
| TASK/REVISION NO.: 3603 cont'd | | |
| <p>DESCRIPTION OF WORK TO BE PERFORMED (OBJECTIVES OR RESULTS DESIRED) (cont'd):</p> <p>The contractor will be responsible for design and implementation of a research lab to foster mission objectives. The contractor will participate with the standards group The Open Group and others such as the IETF, and the DMTF, to advance the maturation of security engineering, security architecture, and interoperable standards. The contractor will work with industry focused groups such as SANS and the Center for Internet Security to produce and validate best practices documentation, and to test security benchmarking and auditing tools.</p> | | |

DO YOU NEED A BOWL FOR YOUR SEWP??

The NASA SEWP BOWL (Business and Operations Workstation Laboratory) serves as a proactive agent between the Federal Government Agencies and the SEWP Prime Contractors. This mission is accomplished for three major ordering processes: pre-order decision making; delivery order processing; and post order quality assurance. Along with these three areas, the SEWP BOWL manages the SEWP contracts and acts as a major information conduit between contractors and agencies. The following services described below are provided by the SEWP BOWL:

PRE-ORDER SUPPORT

1. Provide on-line facility for users to search for and compare all available products and prices across all SEWP contracts
2. Provide an on-line Request for Quote (RFQ) capability.
3. Track the automated quote requests to ensure vendor response
4. Act as an intermediary between contractors and Agency customers to clarify quote requests in a timely fashion (this service is still in its planning stage).

ORDER PROCESSING

1. Receive delivery orders and check for accurate information (Delivery Order number, CO signature, Federal Agency / Authorized Federal Contractor, etc).
2. Enter order information into the SEWP database to allow for usage, status and fee tracking
3. Forward SEWP Delivery Orders to contractors.
4. Reconcile all SEWP Delivery Orders received with Contractors to ensure no orders are lost.

POST-ORDER SUPPORT

1. Process order status reports from SEWP Prime Contractors and provide access to status information to the agency customers.
2. Perform a quality assurance check with agency customers on product delivery, product functionality and overall customer satisfaction.
3. Provide a statistical accounting of product purchases (for summer FY02)

MANAGE CONTRACTS

1. Continually interact at program and contract level between NASA and SEWP Prime Contractors to ensure contract adherence and program improvements

2. Work with Contractors and Agency Customers to quickly and fairly resolve issues, such as late or incorrect delivery
3. Manage Technical Refreshment (TR) process to ensure that new products and price changes are processed in a correct and timely fashion and are in scope of the SEWP contract
4. Monitor and report on overall contract performance including adherence to schedules for required reports and surcharge payments, delivery times, and quality assurance surveys of supplied products

INFORMATION FLOW

1. Develop and maintain contract information on the SEWP web site.
2. Maintain database of all SEWP products
3. Plan and staff SEWP road shows and other outreach activities.
4. Provide email and phone customer support

SEWP BOWL POINTS OF CONTACT

- HelpLine - 301-286-1478
- Fax - 301-286-0317
- Program Manager/COTR - 301-286-7695
- Customer Service Manager - 301-286-2572

Appendix VI: Comments from the Department of Health & Human Services



DEPARTMENT OF HEALTH & HUMAN SERVICES

Public Health Service

National Institutes of Health
Bethesda, Maryland 20892
www.nih.gov

JUN 21 2002

David E. Cooper
Director, Acquisition and Sourcing Management
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Cooper:

Enclosed are the comments of the National Institutes of Health on the GAO draft report entitled, "Contract Management: Interagency Contract Programs Need More Oversight," GAO-02-734. The report provides a thorough evaluation of NIH and other agency Government-wide Acquisition Contracts that have improved the acquisition and delivery of information technology services. We appreciate the opportunity to review and comment on this report.

Our response contains both general and technical comments. We believe that inclusion of these suggested changes and additions will improve the report's clarity and precision.

Should you have any questions, please contact Patricia Quast at 301-402-8264.

Sincerely,

A handwritten signature in black ink, appearing to read "Elias A. Zerhouni", written over a horizontal line.

Elias A. Zerhouni, M.D.
Director

Enclosure

**Comments of the National Institutes of Health (NIH)
On the U. S. General Accounting Office (GAO) Draft Report
"Contract Management: Interagency Contract Programs Need More
Oversight," GAO-02-734**

We appreciate the opportunity to review and provide comments on this draft report. The GAO should be commended for the thorough review of the Government-wide Acquisition Contracts (GWACs). The review will enable us to continue to improve our IT services and strengthen our oversight of these services to both NIH and other Federal agencies. The NIH Information Technology Acquisition and Assessment Center (NITAAC) continues to make a difference in delivering IT services and be a Federal government model of what innovative contracting can become through streamlined processes and effective management.

In response to this draft report, NIH managers performed additional reviews of our accounting systems that showed that the NIH and NITAAC accounting practices are in accordance with the generally accepted accounting principles for accommodating appropriations and Service and Supply Funds (SSFs). In compliance with 42 U.S.C. 231 regulations pertaining to SSFs and all other appropriated fund regulations, appropriations and SSF dollars are not commingled. Retained earnings are held in the SSF for continued funding of the revolving fund account. NITAAC will continue to strive to comply with and promote the Office of Management and Budget "Principles for Government-wide Acquisitions of Information Technology" as presented in the Executive Agent Designation Activity Reporting requirements. This includes a financial management structure as required by the Statement of Federal Financial Accounting Standards (SFFAS) IV: Managerial Cost Accounting Standards and Concepts for the Federal Government with additional support from the Managerial Cost Accounting Standards Guide. Using these standards and guides, the NIH will continue to assure the identification, accounting and recovery of the fully allocated actual costs as further directed by NIH financial managers.

Appendix VII: Governmentwide Acquisition Contract Data Sheet – Department of Commerce

Commerce Information Technology Solutions
Office of Acquisition Management, Office of the Secretary

Program Description:

The Commerce Information Technology Solutions (COMMITTS) program provides the Commerce Department and other federal agencies with a means of awarding performance-based information technology services from 56 small business contractors. The principal goal of COMMITTS is to provide an alternative governmentwide acquisition contract (GWAC) that allows agencies to contract with small and minority-owned businesses for information technology requirements.

The COMMITTS program is designed to accomplish three objectives: (1) deliver information technology services and solutions to meet government organizations' missions, (2) deliver information technology services and solutions using a streamlined, performance-based acquisition methodology, and (3) provide a pool of small business contractors capable of delivering the government's information technology requirements.

To date, the Department of Commerce's National Oceanic and Atmospheric Administration, the Environmental Protection Agency, and the Department of Defense's Army Research Laboratory have spent the most money under COMMITTS.

Contract Information:

COMMITTS is a 5-year multiple-award indefinite delivery, indefinite quantity contract, which permits issuance of task orders with options that may extend performance for an additional 5 years beyond the original performance period. The ceiling amount is \$1.5 billion for services in Information Systems Engineering, Information Systems Security, and Systems Operations and Maintenance. The COMMITTS contract allows for the following types of contracts: firm-fixed price, fixed-price with incentive, cost plus fixed fee, cost plus award fee, cost plus incentive fee, labor hours, and time and materials.

Results Table:

Table 3 shows reported annual operating results for COMMITS.

Table 3: Reported COMMITS Program Results for Fiscal Years 1999 to 2001

| | 1999 | 2000 | 2001 |
|---|-------------|--------------|--------------|
| GWAC orders | \$138,119 | \$14,430,538 | \$52,774,581 |
| Fee revenues | \$1,742 | \$172,675 | \$829,151 |
| Earnings (losses) | (\$137,264) | (\$371,499) | (\$178,691) |
| Percent of orders from external customers | 28.86% | 21.97% | 38.62% |
| Number of employees (FTE) ^a | None | 6 | 8 |
| Contracted support (FTE) | None | .3 | 1.7 |

^aFTE is full-time equivalent.

Source: COMMITS program data.

Fees:

COMMITS program officials told us that fees are reviewed annually to ensure that total revenues do not exceed actual costs. The COMMITS program office collects fees directly from the customers through an interagency agreement. The fees shown in tables 4 and 5 are applied to the value of task orders placed by program customers.

Table 4: COMMITS Full Service Program Fees by Fiscal Year

| Full service COMMITS fees ^a | 1999 | 2000 | 2001 |
|--|-------|-------|---|
| Task order awards if contract is less than \$5 million. | 1.25% | 1.25% | 2.50% |
| Task order awards if contract is greater than \$5 million. | .65% | .65% | 2.50% |
| Modifications if contract is less than \$5 million. | .75% | .75% | 2.00% (if less than \$2 million) 1.75% |
| Modification if contract is greater than \$5 million. | .35% | .35% | 1.00% |

^aFull service fees are charged when customers use the Department of Commerce's acquisition and financial management service organizations.

Source: COMMITS program.

Table 5: COMMITS Limited Service Fee Structure by Fiscal Year

| Limited service COMMITS fees ^a | 1999 | 2000 | 2001 |
|--|-------|-------|-----------------------------------|
| Task order awards if contract is less than \$5 million. | 1.00% | 1.00% | 1.75% (if less than \$500,000) |
| Task order awards if contract is greater than \$5 million. | .50% | .50% | 1.50% (if greater than \$500,000) |
| Modifications if contract is less than \$5 million. | .50% | .50% | 1.75% (if less than \$500,000) |
| Modification if contract is greater than \$5 million. | .30% | .30% | 1.50% (if greater than \$500,000) |
| National Oceanic and Atmospheric Agency agreement, any amount. | | | 1.00% |
| Environmental Protection Agency agreement, any amount. | | | 1.50% |

^aLimited service fees are charged when customers use their own acquisition and financial management service organizations.

Source: COMMITS program.

History:

The Commerce Department's Annual Performance Plan (1999) addresses mission objectives including increasing opportunities for small, small minority, and women-owned small businesses. A major initiative in Commerce's contracting program was to establish a multiple award governmentwide indefinite delivery, indefinite quantity contract among highly qualified small disadvantaged, small disadvantaged 8(a), and women-owned small businesses. On June 21, 1999, OMB designated the Department of Commerce an executive agent for the acquisition of information technology for the COMMITS program.

Appendix VIII: Governmentwide Acquisition Contract Data Sheet – Federal Technology Service

IT Solutions
General Services Administration

| | |
|----------------------|---|
| Program Description: | <p>The Federal Technology Service’s (FTS) IT Solutions business line offers a full range of information technology products and services in support of customers’ missions worldwide.</p> <p>Pre-award services include technical assistance such as requirements analysis and proposal development and acquisition services that include developing an acquisition strategy, conducting the acquisition, signing contracts, and providing legal support, if needed. Post-award services include project management such as managing milestones, schedules, and costs; performing problem resolution and overseeing progress reviews; and financial management services that include managing project funding and accepting and paying vendor invoices.</p> <p>FTS has nine GWACs, and it uses four solution development centers (SDC) to operate them. In addition, FTS’s Federal Systems and Integration Management Center (FEDSIM) provides technical and acquisition expertise to agencies including access to GWACs and other types of contracts.</p> <ul style="list-style-type: none">• The Federal Computer Acquisition Center (FEDCAC) operates the first six GWACs listed in table 6 below. Its core business line is the repackaging of proven industry solutions that are delivered via contracts to meet the emerging technology needs of a specific client agency or for governmentwide use. FEDCAC generated over \$200 million in orders in fiscal 2001.• The ANSWER SDC, which operates the ANSWER GWAC, contracted for \$195.7 million in business in the last fiscal year.• The Small Business SDC specializes in contracts with small businesses. The center, which has contracts with over 150 small business contractors, generated \$200.4 million in fiscal year 2001.• The Information Technology Acquisition Center (ITAC) manages the Millennia Lite GWAC, which covers four functional areas: 1) information technology planning, studies, and assessment, 2) high-end information technology services, 3) mission support services, and 4) legacy systems migration and new enterprise systems development. Millennia Lite generated \$126.3 million in fiscal year 2001. |
|----------------------|---|

- FEDSIM's program officials provide technical and acquisition expertise. Center personnel can use a variety of contracts, including those offered by other agencies, GSA's Schedules contracts, and the GWACs operated by FTS.

Contract Information:

Table 6 contains a brief description of each GWAC.

Table 6: FTS GWAC Information

| GWAC description | Contract maximum value | Period of performance | FY 2001 orders | Number of vendors | Top customers FY 2001 | FTEs FY 2001 |
|---|------------------------|---|-----------------|-------------------|---|--------------|
| <u>Disaster Recovery Services</u> Provides worldwide alternate secure facilities with computer and communications systems for most technology platforms to implement an agency's disaster recovery plan. | \$150 million | 5 years, expires Sept. 2003 | \$3.9 million | 3 | Social Security, Drug Enforcement, Internal Revenue Service | 1.5 |
| <u>Millennia</u> Intended to meet the federal government's demand for large system integration and software development projects. | \$25 billion | 5-year base, one 5-year option; awarded April 1999 | \$102.8 million | 11 | FBI, Navy, DOD other | 1 |
| <u>Seat Management</u> Provides management, operation, and maintenance of items such as desktop, server, and communications assets and services. | \$9 billion | 5 years with one 5-year option; awarded July 1998 | \$1.4 million | 8 | Federal Highway, Nuclear Regulatory Commission | 1.75 |
| <u>Smart Card</u> Provides a common multi-technology, multi-application smart card solution that supports initiatives such as electronic commerce and providing access to secured areas. | \$1.5 billion | 2-year base, has two 4-year options; awarded May 2000 | \$12.9 million | 5 | DOD other, Army, Veterans | 1 |
| <u>TELIS</u> The Telecommunications Integrator Services contract is a turnkey solution tailored to fit an agency's telecommunication needs. It is a flexible contract that provides telecommunications service solutions and network equipment. | \$600 million | 5 years; awarded in 1997 | \$66.1 million | 1 | Air Force, Energy, Social Security | 3.5 |
| <u>Virtual Data Center Support Services</u> Provides an alternative for obtaining mainframe and mid-range systems and related IT and network products and services. It provides for the outsourcing of government data services from existing federal data centers located throughout the world. | \$6 billion | 5-year base, one 5-year option; awarded February 1997 | \$15.4 million | 3 | Education | 1 |

**Appendix VIII: Governmentwide Acquisition
Contract Data Sheet – Federal Technology
Service**

| GWAC description | Contract maximum value | Period of performance | FY 2001 orders | Number of vendors | Top customers FY 2001 | FTEs FY 2001 |
|---|-------------------------------|--|-----------------------|--------------------------|------------------------------|---------------------|
| <u>ANSWER</u> Provides for long-term, worldwide, all-encompassing information technology support such as requirements and design research, system development, and software maintenance. | \$25 billion | 2-year base, has eight 1-year options; awarded December 1998 | \$195.7 million | 10 | Navy, Army, Air Force | 8.5 |
| <u>IT Solutions Small Business - Section 8(a)</u> Provides a broad range of small business integration services that can include personal computers, agency-wide computer networks, training, and other information technology services. | \$90 million per contract | 7 years; expires October 2004 | \$200.4 million | Over 150 | Army, Navy, Air force | 5 |
| <u>Millennia Lite</u> Provides a full spectrum of information technology systems integration and development services worldwide. | \$20 billion | 3-year base, with seven award term options; awards made April to June 2000 | \$126.3 million | 43 | Army, Navy, Air Force | 4 |

Source: FTS IT Solutions program.

Results Table:

Table 7 shows reported annual operating results for the FTS GWACs.

Table 7: Reported FTS Results by Fiscal Year

| | 1999 | 2000 | 2001 |
|----------------------------------|---------------|---------------|---------------|
| GWAC orders | \$247,460,000 | \$774,180,000 | \$724,917,788 |
| Revenues | | | |
| SDCs | \$21,298,000 | \$39,470,000 | \$75,067,000 |
| FEDSIM | \$855,409,000 | \$975,398,000 | \$1.1 billion |
| IT Solutions ^a | \$3.1 billion | \$4.0 billion | \$5.1 billion |
| Earnings (losses) | | | |
| SDCs | (\$1,890,000) | \$715,000 | \$1,115,000 |
| FEDSIM | \$2,072,000 | \$1,697,000 | \$2,498,000 |
| IT Solutions | \$4,664,000 | (\$2,727,000) | (\$750,000) |
| SDC employees (FTE) ^b | 47.2 | 55.2 | 27.3 |
| FEDSIM (FTE) | 140.7 | 156.8 | 177 |

^aIT Solutions is one of two major business lines within FTS. IT Solutions includes SDCs and FEDSIM. FEDSIM was also included in OMB's executive agent designation.

^bFTE is full-time equivalent.

Source: FTS IT Solutions program.

| | |
|----------|---|
| Fees: | <p>FTS's SDCs charge customers two forms of fees: contract access fees and consulting fees. With some exceptions, an access fee of 1 percent covers the cost of administering the contracts. The disaster recovery contract is one of the exceptions, with a fee of ½ percent. The access fee is included in the contractors' prices, and they remit the fee revenue to FTS. The access fee has remained steady at 1 percent.</p> <p>Consulting fees are paid directly to FTS. The centers and FEDSIM charge an hourly rate for technical expertise. For example, FEDCAC and FEDSIM rates ranged from \$74 to \$125 per hour in fiscal year 1999, from \$75 to \$125 per hour in fiscal year 2000, and from \$85 to \$141 per hour for fiscal year 2001. Customers and FTS enter into a memorandum of understanding or an interagency agreement with FTS that outlines the level of support required, the estimated cost to provide the support, and other reporting and contractual elements.</p> <p>Fees are developed to recover full costs and are effective for the entire fiscal year. Rate changes during the year are rare. According to program officials, the fees are reviewed annually.</p> |
| History: | <p>On August 2, 1996, GSA became the first agency to receive an executive agent designation by OMB under the Clinger-Cohen Act. Both FEDSIM and FEDCAC were specifically identified in this designation. FEDCAC evolved from the Air Force Computer Acquisition Center, which had been in existence for over 20 years. FEDCAC was incorporated into the GSA in August of 1991. FEDCAC was chartered to provide acquisition assistance on a fee-for-service basis to agencies whose technical requirements exceeded \$100 million. ITAC is the newest SDC. It became fully operational in fiscal year 2001, along with the Millennia Lite GWAC.</p> |

Appendix IX: Governmentwide Acquisition Contract Data Sheet – NASA

Scientific and Engineering Workstation Procurement Goddard Space Flight Center

Program Description:

NASA's governmentwide acquisition contract (GWAC) is the Scientific and Engineering Workstation Procurement (SEWP) contract. The current GWAC, SEWP III, supports NASA's objective of meeting its own requirements for high-performance information technology, as well as similar needs in other agencies. NASA provides technical expertise in developing SEWP contracts in areas such as electronic data interchange, web and imaging technology, order processing, and technology refreshment.

NASA's role as the agent between the federal agencies and the prime contractors is accomplished by three major ordering processes: 1) pre-order decision-making, which allows users to check prices on-line for all of SEWP's contracts and to track quotes requested from vendors; 2) delivery order processing, which includes receiving delivery orders, checking for accurate information, and entering order information into SEWP's database; and 3) post-order quality assurance, which includes a quality assurance check with agency customers on product delivery, product functionality, and overall customer satisfaction.

The program currently includes 12 prime contracts serviced by 8 prime contractors. The largest SEWP customers are the Air Force, the Army, and the Navy.

Contract Information:

SEWP III is a fixed-price, indefinite delivery, indefinite quantity contract with a maximum value of \$4 billion. The initial set of SEWP III contracts were awarded on July 30, 2001. The term of the contracts is 5 years. The contract specializes in providing advanced technology UNIX, Linux, and Windows-based workstations and servers, along with peripherals, network equipment, storage devices, and other information technology products.

Results Table:

Table 8 shows reported annual operating results for SEWP.

| Table 8: SEWP Operating Results by Fiscal Year | | | |
|--|---------------|---------------|----------------------------|
| | 1999 | 2000 | 2001 |
| GWAC orders | \$573,383,181 | \$673,414,864 | \$506,627,011 ^a |
| Revenues | \$1,547,853 | \$2,571,705 | \$3,200,858 |
| Earnings (losses) | (\$957,373) | \$420,696 | \$646,645 |
| Percent of orders to external customers | 78.5 | 80.9 | 87.8 |
| NASA FTE ^b | 4 | 4 | 4.5 |
| Contracted support | 14 | 14 | 14 |

^aThe decrease in fiscal year 2001 was mainly due to the transition between SEWP II and SEWP III contracts.

^bFTE is full-time equivalent.

Source: SEWP program and NASA Office of the Chief Financial Officer, Goddard Space Flight Center.

Fees:

The SEWP III fees shown table 9 below are applied to the value of purchases made by program customers. The fee is included as a separate contract line item on contract orders. This fee is collected by the contractors and forwarded to the government quarterly. Fees are reviewed each year and adjusted based on a comparison of revenues and costs. Fees are not charged to NASA customers because of an agency policy against charging fees for internal use of NASA-based contracts. However, NASA noted that it is making an in-kind contribution by not charging some costs to the program, such as providing the contracting personnel to set up and administer the SEWP contracts, the SEWP program manager, and office space. NASA does not charge the Environmental Protection Agency a fee because a representative from that agency serves on the SEWP executive committee.

Table 9: SEWP Fees by Fiscal Year

| 1999 ^a | 2000 | 2001 |
|------------------------------------|--|---|
| .75% for orders \$0-100,000 | 0.0% for orders of \$2,500 or less | 0.0% for orders of \$2,500 or less |
| .65% for orders \$100,000-250,000 | .5% for orders from \$2,501 to \$400,000 | .75% for orders from \$2,501 to \$666,666 |
| .5% for orders \$250,000-500,000 | \$2,000 for orders over \$400,000 | \$5,000 for orders over \$666,666 |
| .4% for orders \$500,000-750,000 | | |
| .3% for orders \$750,000-1 million | | |
| .2% for orders over \$1 million | | |

Note: The fees shown here represent the most current fee adjustment during the year.

^aThe fee at the beginning of the year was a flat .75% on all orders.

Source: SEWP program.

History:

NASA's efforts to consolidate its procurement of high-end information technology products date back to the early 1990s. NASA's first SEWP contract was awarded in 1991 as a NASA-only procurement. Within a year, it became a governmentwide contract at the request of the General Services Administration (GSA). The most recent GSA delegation of authority for the SEWP contract, effective through November 14, 2000, was issued in 1995, prior to the passage of the Clinger-Cohen Act of 1996. On September 29, 2000, OMB designated NASA as an executive agent for governmentwide acquisition of information technology.

Appendix X: Governmentwide Acquisition Contract Data Sheet – NIH

National Information Technology Acquisition and Assessment Center
Department of Health & Human Services

Program Description:

The National Institutes of Health National Information Technology Acquisition and Assessment Center (NITAAC) is the organizational focal point for the three governmentwide information technology contracts NIH offers. NITAAC is part of the Office of Administration, which is located in the Office of the Director, NIH. NITAAC's goals include providing NIH and other agencies with quality information technology products and services that focus on emerging technologies and solutions. In addition, NITAAC seeks to simplify the information technology procurement process for internal and external clients, as well as for contractors, by encouraging the use of its on-line ordering system to improve communication between clients and contractors and to reduce the paperwork burden.

NITAAC provides a variety of client services. For example, NITAAC reviews each task order request to determine if it is within the scope of the contract and to ensure that the statement of work and potential contractors are well suited to one another. Quality assurance at the contract level is performed by reviewing contractors' monthly status reports and by analyzing customer orders and feedback on program and policy changes. NITAAC offers mediation services to customer and contractors for GWAC orders when problems occur during contract administration.

NITAAC's GWACs are serviced by over 100 prime contractors. The largest customers for fiscal year 2001 were the Army, Treasury, and NIH.

Contract Information:

NITAAC's three GWACs are described in table 10.

Table 10: NIH GWAC Information

| | Contract maximum value | Period of performance | FY 2001 orders | Number of prime contractors | Top customers FY 2001 |
|--|------------------------|----------------------------------|----------------|-----------------------------|--|
| <u>Chief Information Officer Solutions and Partners 2 Innovations (CIO-SP2i)</u> Allows agencies to customize IT services and solutions. The contract covers hardware, software development, systems integration, and technical support services in nine task areas, such as IT operations and maintenance and critical infrastructure protection and information assurance. | \$19.5B | 10 years 12/21/00 to 12/20/10 | \$198.1M | 48 | NIH Health and Human Services/Admini- stration for Children and Families Army |
| <u>Image World 2 New Dimensions (IW2 nd)</u> Provides a mechanism to meet IT acquisition needs in areas of imaging and document management systems. Offerings include tasks such as data base management, solutions-based imaging systems, and document conversion and electronic storage. | \$15B | 10 years 12/21/00 to 12/20/10 | \$16.3M | 24 | NIH Transportation National Archives |
| <u>Electronic Computer Store-II (ECS-II)</u> Provides a full range of products to meet hardware and software development needs in the areas of desktop computing, networks, and UNIX-based workstations. Items include commercial off-the-shelf hardware and software, software documentation, hardware maintenance, peripherals, and warranty services. | \$2B | 5 years 9/17/97 to 9/16/02 | \$291.3M | 45 | Army NIH Treasury |

Note: Data for orders and top customers also include CIO-SP and IW contracts that expired during the year.

Source: NITAAC program.

Results Table:

Table 11 shows NIH's reported annual operating results for its GWACs.

Table 11: Reported NIH GWAC Results by Fiscal Year

| | 1999 | 2000 | 2001 |
|---|---------------|---------------|------------------------|
| GWAC orders | \$614,101,007 | \$508,635,215 | \$505,746,565 |
| Revenues | \$5,883,643 | \$5,026,185 | \$4,376,083 |
| Earnings | \$2,365,780 | \$1,390,388 | \$268,219 ^a |
| Percent of orders to external customers | 87.7 | 86.4 | 83.8 |
| NIH staff (FTE) ^b | 18.4 | 20.3 | 22.6 |
| Contracted support personnel | 3 | 9 | 9 |

^aNIH officials noted that these reported earnings are understated due to an overcharge of \$729,870 for indirect costs including rent and utilities.

^bFTE is full-time equivalent.

Source: NITAAC program.

Fees: Table 12 below lists the fees paid by NITAAC’s customers external to NIH. The fees are applied to the value of orders placed by program customers and are included as a line item on those orders. The contractors receive the fees and forward them to NIH. While the 1 percent fee was retained for the two 10-year GWACs awarded in fiscal year 2001, NITAAC introduced a sliding scale of lower fees for small business orders. NITAAC reduced its fee in this manner to further promote the use of its small business contractors. Internal customers are charged a flat fee per order submitted. NITAAC reviews its fees annually.

NITAAC recently received authority to accept funds from other agencies through inter-departmental agreements. For these customers, NITAAC not only awards customer orders but administers them as well. NITAAC charges an additional fee of 1.5 percent to handle these agreements.

Table 12: NIH GWAC Fees by Fiscal Year

| Fees if: | 1999 | | 2000 | | 2001 | |
|-----------------------------|-----------|-----------|------------------------|--|--|---|
| | All GWACs | All GWACs | ECS-II CIO-SP IW | CIO-SP2i IW2nd large businesses ^a | CIO-SP2i small businesses ^a | IW2nd small businesses ^a |
| Order is less than \$1M | 1% | 1% | 1% | 1% | 1% | 1% |
| Order is from \$1M to \$5M | 1% | 1% | 1% | 1% | 1% | .75% |
| Order is from \$5M to \$10M | 1% | 1% | 1% | 1% | .75% | .5% |
| Order is greater than \$10M | 1% | 1% | 1% | 1% | .5% | .25% |

^aIf an order is \$25,000 or less, a minimum fee of \$250 is charged.

Source: NITAAC program.

History: NIH has been managing all three information technology contracts since 1996, when the original IW and CIO-SP contracts were awarded under the authority of its Service and Supply Fund (42 U.S.C 231). The original ECS contract was awarded on September 29, 1995.

Appendix XI: Governmentwide Acquisition Contract Data Sheet – Department of Transportation

Information Technology Omnibus Procurement (ITOP) Transportation Administrative Service Center

Program Description:

The Department of Transportation's governmentwide acquisition contract (GWAC), ITOP, operates under the Transportation Administrative Service Center (TASC). ITOP has awarded contracts to 35 prime vendors—comprising a mixture of small disadvantaged, small, and large businesses—who offer a broad range of support resources related to information technology. Initiated to streamline government procurements of information technology, ITOP is supported by a group of multiple pre-awarded contracts.

The three top customers are the Department of Defense's Department of the Army and Joint Strike Fighter Program Office, and the Federal Bureau of Investigation.

On May 20, 2002, the Deputy Secretary of Transportation informed the Director of the Office of Management and Budget that Transportation would not be seeking redesignation as a GWAC executive agent beyond June 3, 2002. The Secretary stated that two issues must be resolved before the Department can determine if a long-term extension of GWAC authority is warranted. First, while early numbers for the first half of fiscal year 2002 show that ITOP has been recovering its costs, more data are needed to ensure continued self-sufficiency. Second, the Department is in the process of determining the extent to which ITOP can address the information technology needs of the new Transportation Security Administration. The Secretary stated that meeting the Transportation Department's in-house information technology requirements must now be its priority.

Contract Information:

ITOP offers a 7-year indefinite delivery, indefinite quantity task order contract providing information systems engineering, systems operations and management, and information systems security to satisfy customer requirements. The contract provides for the following types of orders: firm fixed price, cost plus fixed fee, cost plus award fee, and time and materials.

The current contract, referred to as ITOP II, provides for a maximum of \$10 billion for information technology solutions. ITOP II has an individual task order delivery ceiling of \$300 million. The first contract, ITOP, provided for a total of \$1.13 billion, with an individual task order ceiling of \$50 million.

Results Table:

Table 13 shows reported annual operating results for ITOP.

| Table 13: Reported ITOP Results by Fiscal Year | | | | |
|--|--------------|---------------|---------------|---------------|
| | | 1999 | 2000 | 2001 |
| GWAC orders | | \$247,364,339 | \$258,589,555 | \$246,803,547 |
| Revenues | | \$2,095,253 | \$3,398,901 | \$3,927,010 |
| Earnings (losses) | | (\$852,064) | (\$298,662) | (\$960,156) |
| Percent of orders from external customers | transactions | 68% | 76% | 87% |
| | dollars | 76% | 96% | 93% |
| Transportation employees (FTE) ^a | | 12 | 14 | 17 |
| Contracted support | | 7 | 7 | 7 |

^aFTE is full-time equivalent.

Source: TASC and ITOP program data.

Fees:

ITOP’s program office reassesses its fees periodically to ensure continued competition with other agencies and to ensure that the program recovers costs. The customer pays the fee directly to the ITOP program office using an interagency agreement or other funding instrument. The fees shown in tables 14 and 15 below are applied to the value of task orders placed by program customers.

ITOP adjusted its fee structure in 2001 to better reflect the level of effort and costs of providing services and to address prior-year losses. In fiscal year 2002, TASC reduced the indirect cost rate it charges ITOP by 40 percent. The TASC indirect cost rate reduction (fixed-fee overhead) has already saved ITOP about \$600,000 through June 2002. A Transportation official noted that the ITOP’s total revenues have exceeded costs for the first 9 months of fiscal year 2002.

Table 14: ITOP Fee Structure by Year

| Service category | | Effective 9/1/1998 Fee | Effective 4/1/2000 Fee |
|---|---------------------------------------|---|---|
| Basic contractual services | Program office award ^a | 2.75% min = \$2,063 max = \$275,000 | 2.75% min = \$825 max = \$275,000 |
| | Joint effort ^b | 2.0% min = \$1,500 max = \$200,000 | 2.0% min = \$600 max = \$200,000 |
| | Contract modifications | 1.5% min = N/A max = \$150,000 | 1.5% min = N/A max = \$150,000 |
| Financial services – payment processing service | | .75% - 1.00% min = \$375 max = \$75,000 | .75% - 1.00% min = \$150 max = \$75,000 |
| Delegation of contract authority | Customer award | 1.0% min = N/A, max = \$100,000 | 1.0% min = N/A max = \$100,000 |
| | Customer award-ITOP associate program | .75% min = N/A max = \$75,000 | .75% min = N/A max = \$75,000 |

^aProgram office provides limited pre-award technical support and a full range of contracting support. The program office has lead responsibility for writing the requirement (statement of work).

^bProgram office provides a full range of contracting support. The customer is responsible for writing the requirement (statement of work).

Source: ITOP program.

Table 15: ITOP Fee Structure Effective 10/1/01

| Service category | | Fee |
|---|---|---|
| Basic contractual services | Initial award (including 3 no-cost modifications) and a modification with funding | 2.5% min = \$3,000 max = \$350,000 per task order or modification per year. |
| | Each additional no-cost modification | \$15,000 |
| | No-cost modification package (3 per year) | \$30,000 |
| | Delegation of contracting authority, annual | 1% min = \$3,000 max = \$350,000 per task order per year. |
| Financial services – payment processing service | | 1% min = \$10,000 max = \$127,000/year |
| Additional value-added services | Deluxe contractual expert service | \$50,000 annually |
| | Deluxe technical expert service | \$50,000 annually |
| | Dedicated support | Custom-priced |

Source: ITOP program.

History:

The ITOP program office received both the Department of Transportation's approval and the General Services Administration's delegation of procurement authority for its multiple pre-awarded indefinite delivery, indefinite quantity contract in August 1995. ITOP received its first OMB executive agent delegation in January 1999. As discussed previously, ITOP's executive agent delegation expired on June 3, 2002, and the Department of Transportation decided not to seek redesignation at that time.

Appendix XII: Franchise Fund Pilot Data Sheet – Department of the Interior

Interior Franchise Fund GovWorks Federal Acquisition Center

Program Description:

Interior's Minerals Management Service manages the GovWorks program, which is the largest component of the Interior franchise fund. This fund is located in Interior's Office of the Secretary. The GovWorks program offers a wide range of acquisition services, such as buying high-dollar products and services and awarding grants and cooperative agreements. Program services include project planning, soliciting and evaluating offers, administering contracts and agreements through closeout, and paying all bills. Clients also receive assistance with project management activities, such as preparing statements of work and tracking expenditures.

GovWorks procurements are not limited to any specialized area. The program offers acquisition services in a wide range of areas, such as information technology, environmental studies, training systems development, secure communications, engineering and technical studies, joint military program support, and healthcare support services. In fiscal year 2001, GovWorks had contracts with about 300 contractors. GovWorks' largest customers are the Department of Defense, the Department of Health and Human Services, and the Department of State.

The acquisition services that GovWorks provides to external customers are processed through Interior's franchise fund. Similar service projects for internal customers are accounted for by the Minerals Management Service separately from the franchise fund.

Contract Information:

Because GovWorks is a general-purpose acquisition service, it can access other agencies' governmentwide acquisition contracts and GSA's schedules contracts, in addition to preparing its own contracts. GovWorks has awarded indefinite delivery, indefinite quantity contracts, and multiple-award contracts covering areas such as training and education systems, construction management, and telecommunications infrastructure support.

Results Table:

Table 16 shows reported annual operating results for Interior’s franchise fund program.

Table 16: Reported Results for GovWorks by Fiscal Year

| | 1999 | 2000 | 2001 |
|---|---------------|--------------------------|---------------|
| Contract awards | \$112,280,368 | \$174,308,032 | \$289,821,890 |
| Revenues | \$24,183,040 | \$88,255,873 | \$195,065,239 |
| Earnings (losses) | \$238,262 | (\$190,373) ^a | (\$48,710) |
| Percent of awards to external customers | 76.4 | 72.7 | 87 |

^aThis earnings amount is subject to change because a GovWorks fiscal year 2000 expense of \$488,000 was processed erroneously. Interior is taking action to correct this error.

Note: Revenue and earnings amounts are for GovWorks operations within the franchise fund.

Source: Interior franchise fund and GovWorks program.

Fees:

GovWorks establishes its fee for the franchise fund at the beginning of the project based on an assessment of the amount of assistance needed for the planned procurement. The fee is set as a percentage of the dollar value of the project. The base fee is 3 percent, but it can range from 2 to 4 percent. The fee is paid by the customer agency directly to the Interior franchise fund.

The GovWorks program employs 34 full-time-equivalent personnel, all of whom are Interior employees.

History:

In May 1996, OMB designated the Department of the Interior as one of six executive branch agencies authorized to establish a franchise fund pilot program. Franchise funds were authorized by the Government Management Reform Act of 1994. The GovWorks program began operation in 1997 as part of Interior’s franchise fund.

Appendix XIII: Program Data Sheet – Federal Supply Schedules

General Services Administration
Federal Supply Service

Program Description:

The General Services Administration's (GSA) Federal Supply Service (FSS) organization offers a supply and procurement business under the Federal Supply Schedules Program (Schedules program), which provides federal customers with services from more than 7,400 program vendors, as well as a wide range of commercial products.

The services provided by the Schedules program include accounting, graphic design, financial, information technology, environmental, and landscaping, along with a vast array of brand-name products from office supplies to systems furniture and computers. The services and products are provided at volume discount pricing on a direct-delivery basis. Negotiated prices for varying requirements and all vendor-awarded contracts are included in a catalogue of 48 schedules. The value of information technology orders are larger than the orders in all other schedules combined.

The intent of the Schedules program is to offer customers shorter lead-times, lower administrative costs, and reduced inventories; provide significant opportunities for agencies to meet their small business goals; and promote compliance with socioeconomic laws and regulations.

GSA reports that the external agencies with the largest Schedules program orders are the Department of Defense, the Department of Veterans Affairs, and the Department of Justice.

Contract Information:

Under the Schedules program, GSA awards contracts to multiple companies that supply comparable products and services. These contracts can be used by any federal agency to purchase commercial products and services. The current standard Schedules contract is for a 5-year period with three 5-year options.

Results Table:

Table 17 shows reported annual operating results for the Schedules program.

Table 17: Reported Schedules Program Results by Fiscal Year

| | | 1999 | 2000 | 2001 |
|--|--------------|-----------------|-----------------|-----------------|
| Orders | IT Schedules | \$6.95 billion | \$9.29 billion | \$10.85 billion |
| | Total | \$10.47 billion | \$13.64 billion | \$16.48 billion |
| Revenues | | \$113,808,123 | \$151,123,890 | \$167,500,482 |
| Earnings | | \$39,455,650 | \$55,496,936 | \$56,370,055 |
| Percent of orders from external Customers | | 82 | 79 | 71 |
| Schedules program employees (FTE) ^a | | 623 | 662 | 778 |

^aFTE is full-time equivalent.

Source: FSS data and GSA's General Supply Fund Supply Operations financial statements.

Fees:

GSA's fee, known as the Industrial Funding Fee, is intended to fully recover the cost of operations. In fiscal year 1995, the Schedules program started to become self-supporting. The Schedules program established a 1 percent fee, which is remitted by the vendor to GSA. The fees shown in table 18 are applied to Schedules purchases by program customers.

Table 18: Schedules Program Fees by Fiscal Year

| Service category | 1999 | 2000 | 2001 |
|---|------------------------|------------------------|------------------------|
| Industrial Funding Fee for use of the Schedules program | 1% | 1% | 1% |
| Indirect schedules | 5% | 5% | 5% |
| Special orders contracting ^a | 3.5 – 40% ^b | 3.5 – 40% ^b | 3.5 – 40% ^b |
| Simplified acquisition | 15 – 50% ^b | 15 – 50% ^b | 15 – 50% ^b |
| Definite quantity | .5 – 10% ^b | .5 – 10% ^a | .5 – 10% ^b |

^aSpecial orders contracting employs competition in accordance with the Federal Acquisition Regulation. It is used when customers request GSA to provide full-service acquisition support.

^bThe higher fees for these services result from providing tailored procurement assistance for various goods or services such as furniture, office supplies, hardware, and general products. GSA explained that purchases in these areas generally require that a unique contract be prepared, and generally for a single customer or for small groups of customers. The range of fees is based on annual analyses of program costs and trend-based projections of business volume. However, for some small orders, fees are established to encourage better leveraging of the government's buying power through aggregated purchases.

Source: Schedules program.

History:

In 1993, the House Committee on Appropriations recommended that GSA review the benefits of providing supplies and equipment on a full cost-reimbursable basis. Also in 1993, a Conference Committee for the 1994 Treasury, Postal Service and General Government Appropriations Act stated that federal agencies should be allowed a choice of purchasing from the Schedules program or from the commercial sector. Further, in a 1994 report, the Senate Appropriations Committee stated that the Schedules program was suitable for reimbursable funding under the general supply fund. In 1995, GSA's Federal Supply Service began the process to convert the Schedules program to operation on a cost-reimbursable basis.

Appendix XIV: GAO Contact and Staff Acknowledgments

GAO Contact

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Acknowledgments

In addition to the individual named above, Penny A. Berrier, Paul M. Greeley, and John Van Schaik made key contributions to this report. Richard T. Cambosos, Mark P. Connelly, and Denise M. Fantone served as advisors.

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